

Message Text

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50 45
ACTION EUR-12

INFO OCT-01 EA-07 ISO-00 AID-05 CIAE-00 COME-00 EB-07

FRB-03 INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03

SP-02 CIEP-01 LAB-04 SIL-01 OMB-01 NSC-05 SS-15

STR-04 CEA-01 AGRE-00 IO-13 /100 W

----- 088723

R 021650Z DEC 76
FM AMEMBASSY BONN
TO SECSTATE WASHDC 3788
INFO AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY TOKYO
USMISSION EC BRUSSELS
USMISSION OECD PARIS
USMISSION USBERLIN
USMISSION NATO BRUSSELS
USNMR SHAPE
AMCONSUL FRANKFURT
AMCONSUL MUNICH
AMCONSUL BREMEN
AMCONSUL DUSSELDORF
AMCONSUL HAMBURG
AMCONSUL STUTTGART
CINC USAFE RAMSTEIN
CINC USAREUR HEIDELBERG
CINC EUR VAIHINGEN

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DEPARTMENT PASS TREASURY, FRB AND CEA

E.O. 11652; N/A
TAGS: EFIN, ECON, GW
SUBJECT: INDUSTRIAL PRODUCTION CONFIRMS END OF PAUSE;
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NEW ORDERS LESS ENCOURAGING

1. THE INDUSTRIAL PRODUCTION INDEX CONFIRMS THAT THE PAUSE IN ECONOMIC ACTIVITY HAS DEFINITELY ENDED. SINCE THE JULY LOW POINT OF 110, THE INDEX HAS RISEN STEADILY EACH MONTH, AND IN OCTOBER HAD REACHED 114. IT HAS NOW FOR THE FIRST TIME IN THE RECOVERY PHASE EQUALED THE PRERECESION HIGH POINT REACHED IN 1973-74. FURTHERMORE, THE SEASONALLY ADJUSTED ANNUAL RATE OF INCREASE (S.A.A.R.) FOR THE TWO MONTH PERIOD OF SEPTEMBER-OCTOBER COMPARED WITH JULY-AUGUST WAS 13.6 PERCENT, A SHARP INCREASE FROM THE ZERO AND NEGATIVE GROWTH RATES THAT PREVAILED IN THE THREE PREVIOUS BIMONTHLY COMPARISONS (SEE TABLE I).

2. THE SEASONALLY ADJUSTED INDUSTRIAL NEW ORDERS VOLUME INDEX, OFTEN CONSIDERED A THREE-MONTH FORWARD INDICATOR, WAS LESS ENCOURAGING. UP UNTIL NOW THIS HAD BEEN A SOURCE OF CONFIDENCE, BUT THE MOST RECENT DATA, THAT FOR OCTOBER ALONG WITH THE DOWNWARD REVISED FIGURES FOR SEPTEMBER, PUT MATTERS IN ANOTHER LIGHT (SEE TABLES II AND III). STILL SOMEWHAT OBSCURING THINGS, INsofar AS GROWTH RATE ANALYSIS IS CONCERNED, ARE THE DISTORTIONS IN THE JULY AND AUGUST INDEX NUMBERS THAT RESULTED FROM THE ABNORMALLY LARGE ORDER WE HAVE DISCUSSED IN PREVIOUS MESSAGES. HOWEVER, THERE HAS BEEN A SIZEABLE DROP IN THE TOTAL INDEX FROM SEPTEMBER (114) TO OCTOBER (110). THIS DROP WAS CAUSED BY DECLINING DEMAND FROM ABROAD AND DOMESTICALLY, BOTH OF WHICH DECLINED BY 3 PERCENT (OR 36 PERCENT S.A.A.R.) IN OCTOBER. ON HOME AND FOREIGN MARKETS, BOTH INVESTMENT GOODS AND CONSUMER GOODS SLACKENED, BUT MOST PARTICULARLY THE LATTER.

3. THE QUESTION IS WHETHER THESE NEW ORDERS DEVELOPMENTS PORTEND ANOTHER PAUSE FOLLOWING A BRIEF RECOVERY FROM THE LAST PAUSE. THE ANSWER WILL NOT BE CLEAR FOR ANOTHER MONTH OR TWO. IN ANY CASE, THE OCTOBER NEW ORDERS INDICES ARE ALL STANDING APPROXIMATELY AT THE LEVELS THEY HELD LAST SPRING BEFORE THE STATISTICAL PROBLEMS (SEASONAL ADJUSTMENT, UNCOMMONLY LARGE LIMITED OFFICIAL USE

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ORDER, ETC.) BECAME FACTORS COMPLICATING ANALYSIS.

4. PERTINENT TABLES FOLLOW:

TABLE I
INDUSTRIAL PRODUCTION-SEASONALLY ADJUSTED (1970 100)

PERCENT OF INCREASE (ANNUALIZED) FOR

TWO MONTH PERIOD ENDING IN MONTH		
INDEX	CITED COMPARED WITH PREVIOUS TWO	
1976	NUMBER	MONTH PERIOD
JAN	108	8.5
FEB	110	8.4
MAR	109	8.3
APR	112	8.3
MAY	111	11.0
JUNE	113	8.2
JULY	110	0.0
AUG	111	-5.3
SEPT	112	0.0
OCT	114	13.6

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 CINC USAREUR HEIDELBERG
 CINC EUR VAIHINGEN

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TABLE II
 NEW ORDERS VOLUME INDEX
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SEASONALLY ADJUSTED (1970 100)

1976 TOTAL DOMESTIC RECEIVED
 FROM ABROAD

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JAN	109	100	137
FEB	108	100	132
MAR	111	106	127
APR	109	101	133
MAY	108	100	133
JUNE	110	98	147
JULY(1)	128	98	227
AUG(1)	115	103	161
SEPT	114	104	148
OCT	110	101	144

(1) DISTORTED DUE TO ABNORMALLY LARGE ORDER FROM
 ABROAD WHICH TO CERTAIN EXTENT DOUBLE COUNTED
 IN DOMESTIC SERIES.

TABLE III
 NEW ORDERS VOLUME INDEX
 SEASONALLY ADJUSTED (1970 100)

	DOMESTIC		RECEIVED FROM ABROAD	
	-----	-----	-----	-----
MONTH	INVESTMENT GOODS	CONSUMER GOODS	INVESTMENT GOODS	CONSUMER GOODS
----	-----	-----	-----	-----
JAN	95	104	130	141
FEB	96	106	122	147
MAR	100	105	116	152

APR	98	104	122	152
MAY	93	105	122	156
JUNE	90	101	142	151
JULY(1)	94	97	276	141
AUG(1)	104	101	170	144
SEPT	104	105	144	160
OCT	103	95	140	150

(1) DISTORTED DUE TO ABNORMALLY LARGE ORDER FROM
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ABROAD WHICH TO CERTAIN EXTENT DOUBLE COUNTED
IN DOMESTIC SERIES.
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Margaret P. Grafeld
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TAGS: EFIN, ECON, GE
To: STATE
Type: TE
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